

MAYOR & COUNCIL AGENDA COVER SHEET

MEETING DATE:

July 16, 2007

CALL TO PODIUM:

Fred Felton

RESPONSIBLE STAFF:

Mary Boyle
Louise Kauffmann
Fred Felton
Tony Tomasello

AGENDA ITEM:

(please check one)

	Presentation
	Proclamation/Certificate
	Appointment
	Public Hearing
	Historic District
	Consent Item
	Ordinance
	Resolution
	Policy Discussion
X	Work Session Discussion Item
	Other:

PUBLIC HEARING HISTORY:

(Please complete this section if agenda item is a public hearing)

Introduced	
Advertised	
Hearing Date	
Record Held Open	
Policy Discussion	

TITLE:

Alternatives for Homeownership Assistance Program

SUPPORTING BACKGROUND:

On July 9, 2007, the Mayor and City Council approved a rezoning application for the property at the intersection of MD 355 and West Deer Park Road, the site of Broadstone Apartments. As a result of the rezoning approval and planned redevelopment of the property, the Broadstone tenants will have 120 days to locate other housing, with final vacancy scheduled for November 15, 2007. In addition, it appears likely that the Archstone redevelopment project on East Diamond Avenue will move forward.

In light of the pending and potential redevelopment projects, this work session will focus on various components of a potential homeownership program for residents displaced by residential redevelopment.

To assess various options for a City homeownership assistance program, staff surveyed homeownership programs at the federal, state and local level and also reviewed similar programs across the country. A table summarizing programs currently available to City residents is attached to this coversheet.

In addition, staff held a series of internal review meetings in order to evaluate the effectiveness of the West Deer Park Pilot program, identifying successful elements of that program as well as factors that would create additional success.

Attachments:

Homeownership Assistance Programs Table
Power Point Presentation

See Continuation Pages 2 and 3

DESIRED OUTCOME:

Discuss Issues and Provide Guidance to Staff

Staff also met with representatives of the Housing Opportunities Commission, the agency charged with administering the pilot program, to seek guidance on ways to improve participation levels. Although the program achieved a measure of success given that seven former tenants attained homeownership and remain in good standing today, staff identified a number of issues that contributed to the relatively low participation rates achieved by the program. Those include:

1. There was a relatively high vacancy rate at West Deer Park Apartments by the time the program was ultimately approved and underway.
2. Housing prices were exceptionally high when the program was initiated, putting homeownership out of reach for many occupants even with the available assistance.
3. The one-year term in which tenants were required to purchase a home did not provide sufficient time for this population of residents to cure poor credit records and otherwise arrange their financial affairs.
4. Insufficient contact information was compiled to sustain communication with residents once they vacated the premises.
5. Higher grant amounts (ie, \$15,000) would have likely increased participation.

Staff recommends that these factors be considered in formulating any future homeownership assistance program for the City.

In addition to evaluating the West Deer Park Pilot program, staff examined various funding sources needed to support the proposed homeownership assistance program as well as other programs in the event of future redevelopment projects. On June 21, 2007, the Council adopted the City's FY08 budget in which \$300,000 was allocated for a homeownership assistance program designed to assist residents faced with relocation. Of that \$300,000, \$147,000 remained from the West Deer Park Pilot Homeownership Assistance Program while \$153,000 in new funds were allocated.

One additional viable source of funding would be the use of CDBG funds which may be used to provide down payment and closing cost assistance to households earning up to 80% of AMI. An analysis of the income data of Broadstone residents shows that 80% of those residents earn below 80% of AMI and thus fall within this category of eligibility under federal guidelines. Other sources of funding would be required to assist the remaining 20% of that population, those earning above 80% of AMI and thus ineligible for CDBG funding. Potential revenue sources for those residents include permit fees or, alternatively, a special redevelopment fee.

While allocating a portion of permit revenues for the homeownership assistance program would reduce City revenues in the current fiscal year, the redevelopments would generate higher City property tax and income tax revenues when complete. For example, ACM Tomasello has calculated that the positive economic impact of the redevelopment project would be approximately \$140,000 per year.

The form in which this assistance may be provided also requires consideration. Under the West Deer Park model, direct grants were awarded to eligible participants. One possible alternative format is a loan-based program in which zero percent deferred loans, repayable upon sale or refinancing of the property, are issued to qualified applicants. Under this model, participants would not be required to make monthly repayments, but would be required to repay the loan at the time of sale or refinancing. Alternatively, the City might consider adopting the Montgomery County model which provides low interest (5%) loans on a 10 year term.

In summary, the adoption of a homeownership assistance program requires the Mayor and Council to consider a number of policy questions prior to implementation. Those questions are:

1. Should the program be grant-based or loan-based?
2. How should the program be funded?
3. May participants purchase units outside of City limits?
4. How large of a grant or loan should be made available to residents?

HOMEOWNERSHIP ASSISTANCE PROGRAMS AVAILABLE TO CITY RESIDENTS

JURISDICTION	PROGRAM TITLE	KEY ELEMENTS
Federal	American Dream Down Payment Initiative (ADDI)	Down Payment and Closing Cost Assistance up to \$10,000 or 6% of the purchase price of the home, whichever is greater, to first time homebuyers through federal HOME funds; very limited funding and is available only to current HOC public housing or housing choice residents.
State of Maryland	More House 4 Less	Low interest loans to first time buyers; income limits apply
State of Maryland	Down Payment Settlement Expense Loan Program (DSELP)	0% deferred loans to first time home buyers of up to \$5000 to cover settlement expenses; loan is repayable upon sale or refinancing of home; income limits apply.
State of Maryland	House Keys 4 Employees	State will match contributions from employers dollar for dollar up to \$5000 for down payment costs; match is in the form of a 0% deferred loan repayable upon sale or refinancing.
State of Maryland	Live Near Your Work Plus	Down Payment and Closing Cost Grant of 3% of the mortgage for borrowers who use More House 4 Less Loan and who live within 10 miles of place of employment.
Montgomery County	Mortgage Purchase Program	HOC provides low interest loans to first time homebuyers by issuing tax-exempt bonds
Montgomery County	Closing Cost Assistance Loan	5% Closing Cost Assistance up to \$10,000 at 5% interest; first time homebuyer and at least one of the purchasers must work in Montgomery County; income limits apply; maximum purchase price: \$429,619
Montgomery County	ADDI	Grants of \$1000-\$10,000 to first time homebuyers who are current HOC public housing or housing choice voucher residents

GAITHERSBURG HOMEOWNERSHIP

Alternatives for Assistance



INTRODUCTION

■ Background

- Aging Multi-Family Housing Stock
- Goals of Strategic Direction #5

INTRODUCTION (II)

■ **Housing Initiatives and Discussions in Recent Years**

- November 2005 Overview
- Enhanced Tenant Displacement Benefits
- MPDU/WFHU Ordinance
- Negotiated Affordable Housing Components at Casey East and Crown Farm
- HOC Acquisition of Forest Oak Towers

INTRODUCTION (III)

■ Status of Redevelopment Projects

- Broadstone received SDP approval July 9, 2007.
- Status of Broadstone Relocation Plan
- Archstone (East Diamond Avenue Consolidation)

OTHER AVAILABLE PROGRAMS

■ Federal

- HOME Funds
- American Dream Down Payment Initiative (ADDI)
- Community Development Block Grant (CDBG)

OTHER PROGRAMS (II)

- **State of Maryland**

- **More House 4 Less Program**

- Low Interest
 - Long Term Loan
 - 1st Time Homebuyer
 - Income and Purchase Price Limits Apply

STATE PROGRAMS

■ **Down Payment Settlement Expense Program (DSELP)**

- 0% deferred loan up to \$5000 for closing costs
- 1st Time Home Buyers
- Repaid upon sale or refinancing
- Income and Purchase Price Limits Apply

STATE PROGRAMS (II)

■ House Keys 4 Employees Program

- Dollar for dollar match of employer contribution up to \$5000
- Match in form of 0% deferred loan
- Repaid upon sale or refinancing
- Used in Bozzutto Olde Towne project

STATE PROGRAMS (III)

■ **Live Near Your Work Plus**

- Down payment or closing cost grant
- Up to 3% of mortgage
- Must use CDA mortgage and live within 10 miles of place of employment
- Income and purchase price limits apply

MONTGOMERY COUNTY PROGRAMS

■ Mortgage Purchase Program

- Low interest long term loans
- First time homebuyers
- Administered by HOC

COUNTY PROGRAMS (II)

■ **Closing Cost Loan Program**

- Up to \$10,000 loan at 5% interest
- Repaid in 10 years
- First time homebuyer
- Purchaser must work in County
- Income limits and maximum purchase price apply

COUNTY PROGRAMS (III)

■ **ADDI Down Payment Grant**

- Grants between \$1000-\$10,000
- Uses Limited ADDI (federal) funds
- Available Only to current HOC public housing or housing choice voucher residents
- Administered by HOC

PROGRAMS IN OTHER JURISDICTIONS

■ **Rockville R.E.A.C.H. Program**

- Interest free loan up to \$12,000 for down payment and closing costs
- Repaid over 7 years
- First time home buyers living or working in Rockville and purchasing in City
- \$91,500 Income Limit

OTHER JURISDICTIONS (II)

■ City of Frederick:

■ “Sold on Frederick II”

- 0% deferred loans up to \$15,000 for down payment and/or closing costs
- Repaid upon sale or refinancing
- First time homebuyers purchasing within City and earning no more than 80% AMI
- Uses CDBG funds

OTHER JURISDICTIONS (III)

■ **Frederick County, Maryland**

- 0% deferred loans up to \$5000 for closing costs
- First time homebuyers purchasing in Frederick County
- Can earn no more than 70% AMI
- Repaid upon sale or refinancing

OTHER JURISDICTIONS (IV)

■ Falls Church, Virginia

■ Down Payment/Closing Cost Program

- Up to \$20,000
- 0% interest
- Repaid upon sale or refinancing

OTHER JURISDICTIONS (V)

■ Cambridge, Massachusetts

- Down payment and/or closing cost assistance
- Grant up to 6% of sale price of home
- 20% of grant forgiven each year over 5 year period
- First time homebuyer earning no more than 80% AMI

OTHER JURISDICTIONS (VI)

■ City of Austin, Texas

- 0% deferred loan for down payment
- Up to \$10,000 for households earning no more than 80% AMI
- Repaid Upon Sale or Refinancing
- Forgiven after 10 years of ownership

OTHER JURISDICTIONS (VII)

■ **Pinellas County, Florida**

- 0% deferred loan up to \$15,000 for down payment assistance
- Available to households earning up to 120% AMI
- Repayment begins after 5 years
- Maximum home purchase price applies

WEST DEER PARK REVIEW

■ Review of Program Elements

- \$220,000 allocated
- \$8,500-\$10,000 grants
- Must purchase home within 1 year
- Income and purchase price limits apply
- Administered by HOC

WEST DEER PARK (II)

■ What Worked Well:

- Approximately 55 families received homeownership counseling presented by HOC in English and Spanish
- 7 former tenants own homes
- All remain in good standing

WEST DEER PARK (III)

■ Lessons Learned:

- 1 year purchase period too short
 - 3 year window better suited to population
- Increased outreach to residents required
 - Poll residents early to determine participation
 - Provide homeownership counseling earlier in the process
 - Collect resident contact information

WEST DEER PARK (IV)

■ **Lessons Learned** (continued)

- Vacancy level affected participation
- High housing prices affected participation
- Households earning below 50% AMI unlikely to afford home purchase
- Higher grant amounts (i.e. \$15,000) would have likely increased participation

PROGRAM OPTIONS

■ **Option I: West Deer Park Model (with modifications)**

- Direct grant to applicants
- Lengthen grant availability to 3 years
- Require pre-commitment by participants
- Improve outreach and communication

PROGRAM OPTIONS (II)

■ **Option II: Deferred Loan**

- 0% interest
- deferred loan
- Repayable upon sale or refinancing

PROGRAM OPTIONS (III)

- **Option III: Loan at Low Interest (County Model)**
 - Short term loan (10 years)
 - 5% interest

PROGRAM BUDGET

- **\$300,000 Available**

- \$147,000 remaining from West Deer Park Pilot Program
- \$153,000 in new funds allocated

FUNDING SOURCES

■ CDBG

- May be used to fund grants/loans to households earning up to 80% AMI
- Subject to standard federal restrictions and reporting requirements

FUNDING SOURCES (II)

■ **CDBG Funding** (continued)

- 55% of Broadstone residents earn below 60% AMI (CDBG eligible)
- 25% of Broadstone residents earn between 60-80% AMI (CDBG eligible)
- Total CDBG eligible: 80% of tenants

FUNDING SOURCES (III)

■ **CDBG funding** (continued)

- 20% of Broadstone residents earn above 80% (not eligible)
- Total CDBG ineligible: 20% of tenants

FUNDING SOURCES (IV)

■ **CDBG Funding** (continued)

■ Pros:

- Clearly identifiable
- Does not drain City resources
- Renewable
- Serves needy population
- Meets national objectives set by HUD

FUNDING SOURCES (V)

■ **CDBG** (continued)

■ Cons:

- Administratively burdensome
- Does not serve households earning over 80% AMI

FUNDING SOURCES (VI)

■ Permit Fees

■ Pros:

- Clearly identifiable
- Discrete source of funds for each redevelopment
- Connects redevelopment directly to need to assist displaced residents
- Loss of permit revenues would be offset over time due to increased City revenues generated by redeveloped projects

FUNDING SOURCES (VII)

■ **Permit Fees** (continued)

■ Cons:

- Impact on City budget
- Depletes resources for other City uses

FUNDING SOURCES (VIII)

■ **Special Relocation Fee Assessed on Developers**

■ Pros:

- Clearly identifiable
- Places burden on developer
- No negative impact on City budget
- Connects redevelopment directly to need to assist displaced residents

FUNDING SOURCES (IX)

- **Special Relocation Fee Assessed on Developers**
 - Cons:
 - Developer objections
 - Jeopardize project viability

POLICY ISSUES

■ Policy Question I:

Should the program be grant-based, loan-based, or some combination?

POLICY ISSUES

■ Policy Question II:

How should the program be funded?

POLICY ISSUES

■ Policy Question III:

May participants purchase units
outside of the City?

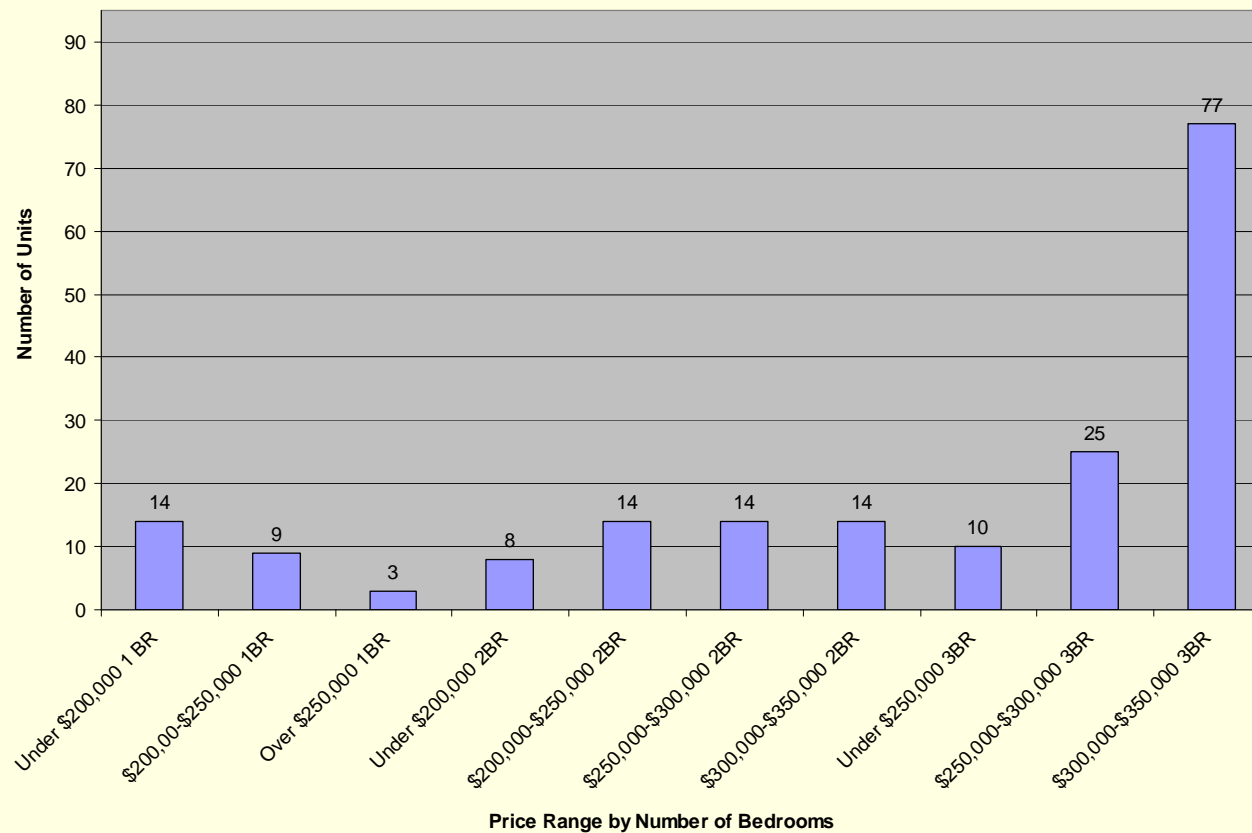
POLICY ISSUES

■ Policy Question IV:

How large of a grant or loan should be made available to residents?

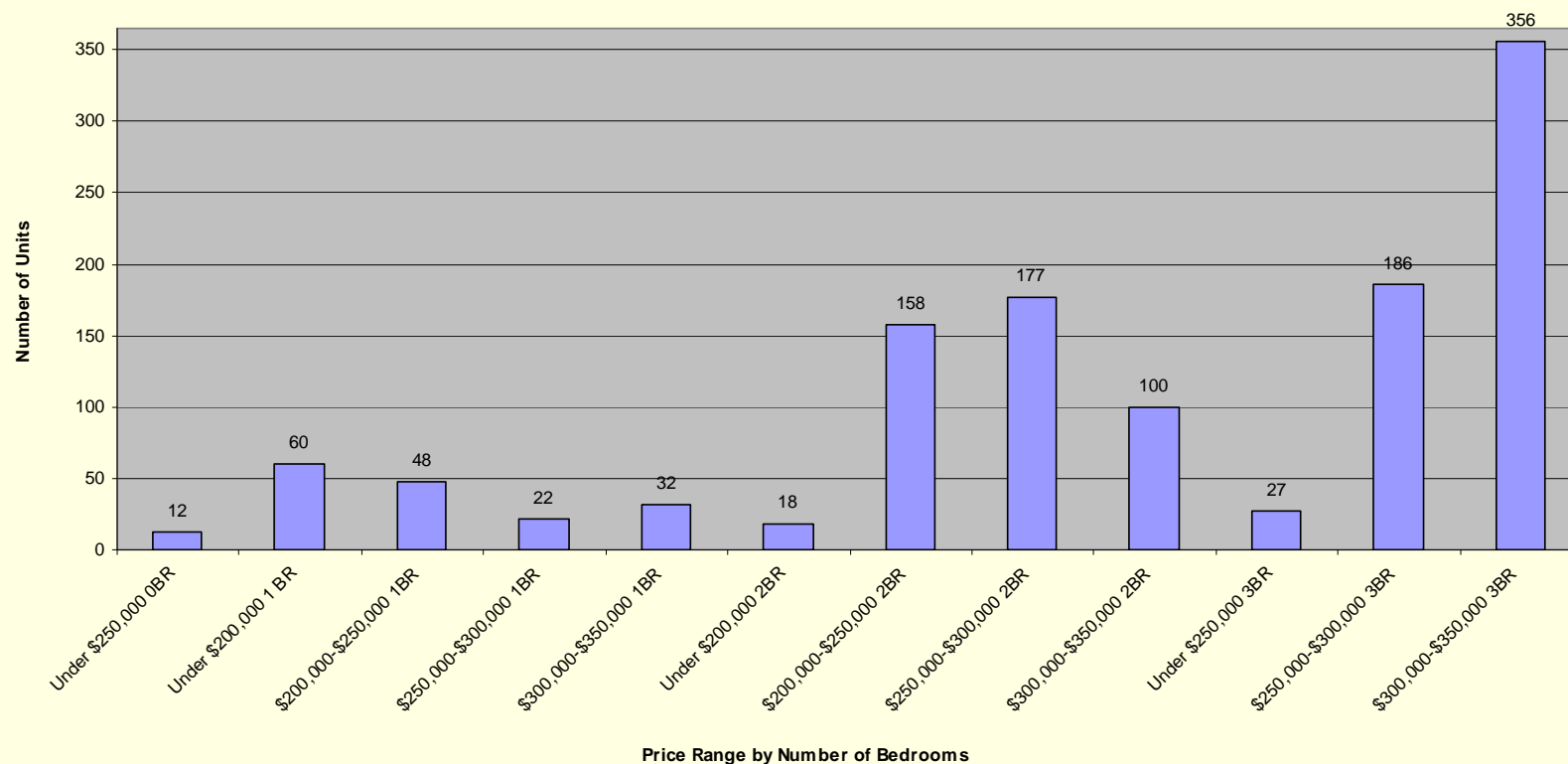
FOR SALE UNITS IN GAITHERSBURG

JULY 3, 2007



FOR SALE UNITS IN MONTGOMERY COUNTY

JULY 3, 2007



FOR SALE UNITS IN MONTGOMERY COUNTY AT OR BELOW \$350,000 (0 – 3 BR)

- 12 - efficiency (0) BR \leq \$250,000
- 162 - 1 BR \leq \$350,000
- 453 - 2 BR \leq \$350,000
- 569 - 3 BR \leq \$350,000

- Total: 1,196

FOR SALE UNITS IN GAITHERSBURG AT OR BELOW \$350,000 (1, 2, & 3 BR)

- 26 - 1 BR \leq \$350,000
- 50 - 2 BR \leq \$350,000
- 112 - 3 BR \leq \$350,000

- Total: 188